

## Message Text

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TAGS: UNCTAD, ETRD, EGEN

SUBJECT: UNCTAD MARKETING STUDIES IN BANANAS AND COCOA

REF: GENEVA A-198

1. MISSION MAY PASS FOLLOWING COMMENT TO UNCTAD SECRETARIAT.
  2. THE COMPETENT GROUP ON BANANAS IS THE FAO INTERGOVERNMENTAL GROUP ON BANANAS.
  3. THE STATISTICS USED IN THE STUDY WERE ONLY THROUGH 1972. AN UPDATE IS NECESSARY.
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4. FAO STATISTICS DISPUTE THE QUOTE PROFIT MARGINS TO MIDDLEMEN UNQUOTE USED IN THE UNCTAD STUDY. A MORE BALANCED APPROACH SHOULD HAVE BEEN USED. THE REPORT IS TOO SLANTED AGAINST U.S. MULTINATIONAL COMPANIES.

ANY DEFINITION OF WHAT THE RIGHTS AND DUTIES OF THE MULTINATIONAL COMPANIES ARE, MUST BE AN OUTGROWTH OF A PROCESS OF CONSULTATIONS BETWEEN THE COUNTRIES AND THE COMPANIES INVOLVED. THE TWO SIDES ARE MUTUALLY DEPENDENT ON ONE ANOTHER.

5. IN CHAPTER I, THE REPORT DOES NOT GIVE SUFFICIENT ATTENTION TO THE OPPORTUNITIES FOR OPENING UP MARKETS IN CENTRALLY PLANNED ECONOMIES. THE SECTION ON SUBSIDIES TO GROWERS IN PARAGRAPH 12 SHOULD BE CLEARED UP AS ONLY JAMAICA AND COSTA RICA ARE KNOWN TO DIRECTLY SUBSIDIZE PRODUCERS. IN COSTA RICA THIS IS DONE FOR INDEPENDENT GROWERS WHO ONLY GROW A PORTION OF TOTAL PRODUCTION.

6. THE RELATIONSHIP BETWEEN U.S. MULTINATIONAL BUYERS OF FRUIT ON AN F.O.B. BASIS IN EXPORTING COUNTRIES AND RIPENERS AND WHOLESALERS IS DIVORCED SO THE STATEMENT

IN PARAGRAPH 14 THAT SOME COMPANIES PURSUE POLICIES DESIGNED TO OBTAIN THE LARGEST MARK-UP FOR RIPENERS IS INCONSISTENT.

7. THE FACT THAT ONLY 11.5 OF THE GROSS RETURNS ON THE RETAIL SALE OF BANANAS GOES TO THE PRODUCERS WOULD NOT SEEM UNUSUAL WHEN COMPARED TO MOST RETURNS ON DOMESTICALLY PRODUCED AND MARKETED FRUITS AND VEGETABLES SOLD AT RETAIL IN THE U.S.

8. FAO DOCUMENTS OF MORE RECENT DATE INDICATE A HIGHER PERCENTAGE OF THE FINAL PRICE GOING TO THE PRODUCERS. FOR EXAMPLE, WHILE THE UNCTAD PAPER CITES AN 11.5 RATE OF RETURN TO THE GROWER, THE FAO CITES 13.1 TO 14.9 OF THE FINAL PRICE FOR DELIVERIES AT THE PACKAGING SHED AND 26.9 TO 30.5 ON AN F.O.B. BASIS FOR EXPORTS TO THE U.S.

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9. IF SALES GAINS ARE TO BE MADE IN THE SOCIALIST COUNTRIES WHERE RETAIL MARGINS ARE SUPPOSEDLY REDUCED, THEN THE GAINS TO PRODUCERS FROM INCREASES IN BANANA VOLUMES IN INTERNATIONAL TRADE MIGHT PERHAPS BE GREATER. PERHAPS EXPORTERS SHOULD CONCENTRATE ON CENTRALLY PLANNED MARKETS AND OBTAIN HELP FROM UNCTAD IN THIS ENDEAVOUR.

10. IN ITS ATTACK ON THE MULTINATIONAL BANANA MARKETING ENTITIES, THE UNCTAD PAPER DOES NOT DESCRIBE HOW IT PROPOSES TO SECURE A LARGER PARTICIPATION IN THE MULTINATIONALS FOR THE PRODUCING COUNTRIES. IN THE THREE MAJOR CONGLOMERATES OPERATING IN THE BANANA FIELD, BANANAS PLAY A LESS THAN 50 ROLE IN TOTAL SALES AND PROFITS. UNCTAD OFFERS NO SOLUTIONS. UNLESS MORE

SPECIFICS ARE OFFERED, A CONFRONTATION IS LIKELY BETWEEN THOSE DESIROUS OF INCREASING THE CONTROL OF MARKETING AND DISTRIBUTION IN THE HAND OF THE PRODUCERS AND THE AND THE DESIRE OF THE COMPANIES TO PROTECT THEIR INTERESTS.

11. THE STUDY STATES THAT FEW TROPICAL CROPS REQUIRE AS HIGH A CAPITAL INVESTMENT IN DISTRIBUTION AS BANANAS. SINCE THE COMPANIES ARE INCLINED TO TURN OVER PRODUCTION ASPECTS OF THE CHAIN TO PRODUCER COUNTRIES AND LOCAL INTERESTS, IT WOULD SEEM INEFFICIENT TO DUPLICATE THE EXISTING MARKETING AND DISTRIBUTION SYSTEM OR ATTEMPT TO DRASTICALLY ALTER IT AT THIS STAGE. ANY SUCH ACTIVITY WOULD BE A COSTLY ENDEAVOR AND COULD DISRUPT THE ADMITTEDLY (EVEN BY UNCTAD) EFFICIENT SYSTEM NOW OPERATED BY THE MULTINATIONALS.

12. IN PARAGRAPH 28 THE STUDY ADMITS THAT THE REQUIREMENTS FOR ADEQUATE LOGISTICS, THE PERISHABLE NATURE OF THE COMMODITY AND THE HEAVY CAPITAL INVESTMENT REQUIRED, ALL REINFORCE THE NEED FOR VERTICALLY INTEGRATED ORGANIZATIONS IN BANANA TRADE. THE QUESTION WHICH REMAINS UNANSWERED BY UNCTAD IS HOW TO CAPITALIZE ON THIS SYSTEM INSTEAD OF CONFRONTING IT OR TRYING TO SET UP A PARALLEL AND PROBABLY LESS EFFICIENT NETWORK.

13. IN PARAGRAPH 51 THE STUDY REPEATS THE GENERALIZATION THAT THE MULTINATIONALS ATTEMPT TO KEEP F.O.B. UNCLASSIFIED

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PRICES TO GROWERS LOW IN ORDER TO ENHANCE THE MARGINS OF RIPENERS AND WHOLESALERS. FACTUAL EVIDENCE IS NOT SUPPLIED BY THE STUDY TO SUPPORT THIS CONTENTION.

14. IN THE PORTION DEALING WITH LAND CONCENTRATION AND THE MARKETING STRUCTURE OF BANANA PRODUCTION IN JAMAICA THE EXPOSITION APPEARS A BIT MISLEADING. THE FACT THAT ONLY A SMALL PORTION OF THE BANANAS PRODUCED

FOR EXPORT IN JAMAICA ARE PRODUCED BY SMALL GROWERS IS NOT UNUSUAL SINCE EXPORT QUALITY FRUIT IS GENERALLY PRODUCED ON LARGER, OFTEN FOREIGN OWNED PLANTATIONS WHERE CULTIVATION AND LOGISTICAL TECHNIQUES ARE FAR BETTER. THE SAME COMMENT CAN BE MADE FOR THE IVORY COAST. WHAT UNCTAD FAILS TO EXPLAIN IS THE ACTUAL PRODUCTION SHARES OF BANANAS BY FARM SIZE. THIS MAY SHOW MORE PRODUCTION BY SMALLER FARMS.

15. CHAPTER II DEALS WITH THE CHARACTERISTICS OF THE MARITIME TRANSPORT OF BANANAS, THE ORGANIZATION OF THE MARITIME TRANSPORT AND RELATED MATTERS. THE STUDY SEEMS

TO ACCEPT LESS THAN EFFICIENT LOADING AND UNLOADING

TECHNIQUES IN SOME PORTS BECAUSE THEY USE MORE LABOR AND PROVIDE NEEDED EMPLOYMENT. IN LIGHT OF THE ADDED COST FACTORS INVOLVED IN OCEAN TRANSPORT AND SHIP CONSTRUCTION WHICH HAVE OCCURRED AS AN OUTGROWTH OF THE ENERGY

CRISIS, AND RAW MATERIALS PRICE INCREASES OVER THE PAST TWO YEARS, THE USE OF ANYTHING BUT THE LATEST TECHNIQUES FOR LOADING AND UNLOADING OF BANANAS SEEMS WASTEFUL, AN ADDED BURDEN ON CONSUMERS, AND RESTRICTIVE OF CONSUMPTION IN THE LONGER RUN.

16. THE SECTION ON THE MARITIME TRANSPORT OF BANANAS IS AN ENLIGHTENING EXPOSITION OF THE SUBJECT WHICH SHOULD PROVE USEFUL TO CONCERNED PARTIES. THE CONCLUSIONS THAT BUYERS OF SHIPPING SERVICES TEND TO HAVE CONSIDERABLE INFLUENCE OVER FREIGHT RATES AND TRANSPORT DECISIONS AND THE STATEMENT CONCERNING THE TRANSFER OF BENEFITS FROM IMPROVED FREIGHT SERVICES TO THE UNCLASSIFIED

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MULTINATIONAL COMPANIES AND TO CONSUMERS, BUT NOT TO PRODUCERS ARE NOT BACKED UP BY SOLID ANALYSIS.

17. CHAPTER IV CONCERNS ITSELF WITH THE MARKETING ORGANIZATION IN THE CONSUMING COUNTRIES, INCLUDING WHOLESALE AND RETAIL PRICE LEVELS, IMPORT REGIMES AND MARKET ORGANIZATIONS, AND THE MARKET ORGANIZATION IN THE SOCIALIST COUNTRIES OF EASTERN EUROPE.

18. THIS SECTION FOLLOWS THE GENERAL LINE TAKEN BY THE PAPER CONCERNING THE UNEQUAL BALANCE BETWEEN THE TRANSNATIONALS AND THE PRODUCER COUNTRIES. THE SECRETARIAT HAS TO EXPAND AND SUBSTANTIATE ITS CLAIM THAT THERE IS EVIDENCE THAT THE THREE TRANSNATIONAL CORPORATIONS HAVE SOUGHT JOINT MARKETING ARRANGEMENTS WITH SOME OF THE LARGER IMPORTING COMPANIES (PARAGRAPH 117). IN THE U.S. SUCH ACTION WOULD BE CONTRARY TO THE ANTI-TRUST RULINGS CONCERNING BANANAS, AND MOST PROBABLY IN VIOLATION OF OUR LAWS.

19. CHAPTER V, WHICH INCLUDES A SUMMARY AND SUGGESTIONS FOR IMPROVEMENTS IN PRESENT MARKETING ARRANGEMENTS IS THE HEART OF THE STUDY. THE CHAPTER LEAVES SEVERAL UNANSWERED QUESTIONS AND RAISES MANY POINTS. WHY WOULD TOTAL TRADE LIBERALIZATION INCREASE THE ABSOLUTE GAP IN ECONOMIC RETURNS BETWEEN DOMESTIC GROWERS AND FOREIGN ENTERPRISES? WHY SHOULD PRODUCERS ALLOW SPECIAL STRUCTURAL FEATURES OF THE MARKET IN SOCIALIST COUNTRIES TO LIMIT THE POTENTIAL GAINS FROM INCREASED BANANA CONSUMPTION? THEIR EFFORTS SHOULD CONCENTRATE ON THIS PROBLEM. IF THE SYSTEM OF TRANSPORT IS ADMITTEDLY EFFICIENT, WHY CHANGE IT FOR WHAT PROBABLY WOULD BE

A POORER SYSTEM?

20. SINCE THE NEED FOR A BANANA PRODUCER/EXPORTER ORGANIZATION IS STRESSED, THIS PART OF THE STUDY NEEDS TO BE CLARIFIED AND BACKED-UP.

21. THE ARGUMENT THAT THE MULTINATIONAL COMPANIES HAVE UNEQUAL BARGAINING POWER IN NEGOTIATIONS WITH BANANA PRODUCING COUNTRIES NEEDS CLARIFICATION. ALL UNCLASSIFIED

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THESE COUNTRIES ARE SOVEREIGN STATES.

22. THE STUDY OF PROFIT REMITTANCES IS A SEPARATE QUESTION FROM PROFIT DISTRIBUTION IN THE PRODUCTION TRANSPORT/MARKETING CHAIN. THE STUDY LUMPS TWO UNRELATED SUBJECTS TOGETHER IN THIS CHAPTER. FURTHERMORE, THE EMPLOYMENT OF EXPATRIATES IS NOT PROPERLY A FUNCTION FOR AN INTERNATIONAL ORGANIZATION TO STUDY SINCE THE PRACTICE VARIES WIDELY FROM COUNTRY TO COUNTRY. THE QUESTION IS MORE PROPERLY WITHIN THE PURVIEW OF EACH INDIVIDUAL PRODUCING COUNTRY IN ITS RELATIONS WITH THE MULTINATIONAL COMPANIES.

23. COCOA. IN GENERAL TERMS THE REVISED VERSION OF THE "MARKETING AND DISTRIBUTION SYSTEM FOR COCOA" REPORT TD/B/C 11 164, IS A SUBSTANTIAL IMPROVEMENT OVER THE EARLIER PRODUCT. IT IS A USEFUL DOCUMENT WHICH SHOULD PROVE OF USE IN THE FURTHER ANALYSIS OF PRODUCTION AND

TRADE IN COCOA.

24. THE REPORT IS RATHER SELF CONTAINED AND THEREFORE THERE IS NO NEED TO SET UP ANY "GROUP OF EXPERTS" OR AD HOC INTER-GOVERNMENTAL GROUP TO REVIEW THE STUDY WITHIN THE FRAMEWORK OF UNCTAD. THE COMPETENT GROUP IN THIS AREA HAS BEEN THE INTERNATIONAL COCOA AGREEMENT. THIS STUDY SHOULD BE THE TERMINATION OF EFFORTS IN COCOA MARKETING STUDIES FOR UNCTAD.

25. ALL THE STATISTICS IN THE REPORT SHOULD BE UPDATED TO TAKE ACCOUNT OF NEW AND POSSIBLY CHANGED CONDITIONS.

26. ON PAGE 6, PARAGRAPH 7, WHAT EVIDENCE IS THERE THAT CONSUMPTION IS REACHING SATURATION LEVELS?

27. ON PAGE 13, PARAGRAPH 23, THE SECTION ON POLITICAL DECISIONS INFLUENCING PRODUCTION AND MARKETING SHOULD BE EXPANDED.

28. ON PAGE 61, 1973 D 4 DATA SHOULD BE USED FOR BRAZIL TO SHOW BRAZILIAN PRODUCTION INCREASED 18 PERCENT.

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29. IN PARAGRAPH 29, FOOTNOTE 2, THE FACT THAT CURRENT CONDITIONS IN PRODUCING COUNTRIES PROVIDE ALTERNATE OPPORTUNITIES FOR COCOA FARMERS SEEMS TO WEAKEN THE ARGUMENT THAT STABILITY OF PRICE OUTWEIGHS TO A LARGE

DEGREE THE RELATIVELY LOW PRICES RECEIVED BY FARMERS. IN OUR VIEW, THE FUNDAMENTAL PROBLEM FACED IN THE COCOA INDUSTRY IS INSUFFICIENT PRODUCTION BECAUSE OF LOW PRICES PAID FARMERS.

30. IN PARAGRAPH 88, IT SHOULD BE NOTED THAT WHILE PRODUCTION EXPANSION MAY HAVE CHARACTERIZED THE MARKET INSPITE OF PRICING CONDITIONS, CURRENT CONDITIONS OF ALTERNATE CROPS AND RISING LABOR COSTS INDICATE A DELIBERATE AND WELL COORDINATED POLICY OF PRODUCTION EXPANSION IS NECESSARY.

31. IN PARAGRAPH 90, RECOMMENDATION NUMBER 3 IS ACCOMPLISHED THROUGH THE BUFFER STOCK FACILITY OF THE INTERNATIONAL COCOA AGREEMENT. THE LAST RECOMMENDATION IN PARAGRAPH 90 IS EXCELLENT AND SHOULD RECEIVE FURTHER SUPPORT AND STUDY FROM UNCTAD.

32. IN PARAGRAPH 92 IT SHOULD BE NOTED THAT WORK TOWARD REDUCTIONS OF OUR TARIFF BARRIERS THROUGH OUR TRADE

ACT AND THE MTN IS NOW UNDERWAY.

33. IN PARAGRAPH 93 WE SHOULD NOTE THAT THE ADMINISTRATION HAS INCLUDED THIS PRODUCT ON THE PROPOSED LIST OF PRODUCTS FOR GSP.

34. AS PER PARAGRAPH 106, FURTHER STUDY WOULD BE A WASTE OF TIME.

35. AS REGARDS PARAGRAPH 115, THE THE CENTRALIZATION OF COCOA SHIPPING CAN HAVE NEGATIVE EFFECTS IN TERMS OF EFFICIENCY, PARTICULARLY FOR SMALLER PRODUCERS WHO HAVE SMALL LOTS OF COCOA WHICH TRAVEL ON NORMAL LINER OR TRAMP VESSELS. CENTRALIZATION COULD REMOVE  
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THEIR FLEXIBILITY. FURTHER STUDY OF THE MARITIME TRANSPORT OF COCOA WOULD NOT BE USEFUL.

36. IN PAGE 67, PARAGRAPH 178, IT SHOULD BE NOTED THAT SOCIALIST COUNTRIES NOW PURCHASE MORE COCOA FROM TERMINAL MARKETS THAN THEY DO DIRECTLY FROM EXPORTERS.

37. UNDER PARAGRAPH 185, THE KEY POINT TO BE MADE IS THAT NO CHANGE IN MARKET ORGANIZATION SHOULD BE CONSIDERED UNTIL THE COCOA AGREEMENT HAS BEEN PERMITTED TO OPERATE FOR SOME YEARS.

38. IN PARAGRAPH 225, WE SHOULD POINT OUT THAT THE LOW PRICE RECEIVED BY COCOA FARMERS IN PRODUCING COUNTRIES IS OFTEN DUE TO THE UNFAVORABLE PRICES PAID BY COCOA MARKETING BOARDS. IN VIEW OF THE DIFFICULTIES IN MEASURING REAL PRICES IN VARIOUS COUNTRIES, THE POINT IS THAT WHAT MUST BE ANALYZED IS THE TOTAL RETURNS TO COCOA FARMERS.

39. THE PRICE ELASTICITY OF DEMAND IN THE HIGHER PRICE RANGES SHOULD BE REVIEWED IN PARAGRAPH 226.

40. AGAIN, IN PARAGRAPH 232 THE ISSUE OF IMPORT BARRIERS IN CONSUMING COUNTRIES WILL BE TAKEN UP IN THE MTN.

41. PART (B) OF PARAGRAPH 240 IS AN EXCELLENT IDEA.

PART (C), HOWEVER, SEEMS CONTRARY TO THE INTERNATIONAL COCOA AGREEMENT BUFFER STOCK PROVISION. SUGGESTION (E) IS ALSO EXCELLENT.

42. PART (A) OF PARAGRAPH 242 IS AN INTERNAL U.S. MATTER WHICH IS BEING STUDIED BY THE NEWLY FORMED COMMODITY FUTURES TRADING AUTHORITY. INGERSOLL

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